

**VICTOR VALLEY
COMMUNITY COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Victor Valley Community College District
Victorville, California

We have audited the accompanying basic financial statements of Victor Valley Community College District (the District) as of and for the year ended June 30, 2011, as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Victor Valley Community College District as of June 30, 2011, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding formula of Victor Valley Community College District.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 14 and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Jallinek, Tine, Day & Co., LLP.

Rancho Cucamonga, California

December 23, 2011



VICTOR VALLEY COLLEGE
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USING THIS ANNUAL REPORT

The purpose of this annual report is to provide readers with information about the activities programs and financial condition of Victor Valley Community College District (the District) as of June 30, 2011. The report consists of three basic financial statements: the Statement of Financial Position, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows and provides information about the District as a whole. This section of the annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2011. Please read it in conjunction with the District's financial statements, which immediately follow this section. Responsibility for the completeness and accuracy of this information rests with the District management.

Victor Valley Community College District was established in 1961 and serves the County of San Bernardino and a small portion of the County of Los Angeles. Students in our college may complete the freshman and sophomore years of a baccalaureate degree and transfer to upper division study at a university or complete a certificated vocational program and move directly into the workforce.

OVERVIEW OF THE FINANCIAL STATEMENTS

Victor Valley Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and No. 35, *Basic Financial Statements - and Management Discussion and Analysis - for Public College and Universities*. These statements allow for the presentation of financial activity and results of operations which focuses on the District as a whole. The entity-wide financial statements present the overall results of operations whereby all of the District's activities are consolidated into one total versus the traditional presentation by fund type. The focus of the Statement of Net Assets is designed to be similar to the bottom line results of the District. This statement combines and consolidates current financial resources with capital assets and long-term obligations. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on the costs of the District's operational activities with revenues and expenses categorized as operating and nonoperating, and expenses are reported by natural classification. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

The California Community Colleges Chancellor's Office has recommended that all State community colleges follow the Business Type Activity (BTA) model for financial statement reporting purposes.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION) JUNE 30, 2011

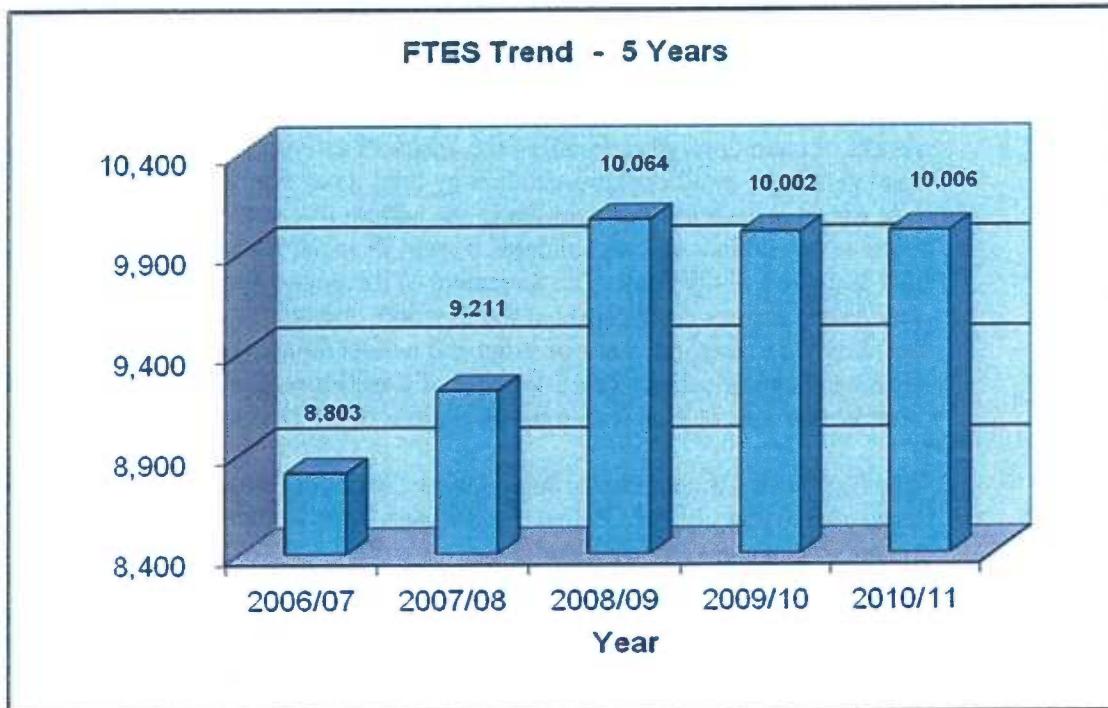
FINANCIAL HIGHLIGHTS

This section provides condensed information for each of the three basic financial statements, as well as illustrative charts and tables.

The District has continued to experience a boom in growth; enrollment exceeded 10,000 full-time equivalent students (FTES) during 2008-2009 and 2009-2010, and the District maintained that level through 2010-2011. This growth has resulted in an additional \$1 million received in State apportionment. The California Legislature passed a State budget that was signed into law by the governor in 2010. The State budget imposed a reduction to workload and service to students in the academic year 2010-2011. This means that the State puts a cap on the amount of FTES a college will be paid for, even if the enrollment goes higher. At the end of fiscal year 2010-2011, the District had 393 unfunded FTES.

The challenge with this growth comes in terms of course management. The District has focused on obtaining better fill rates in the classrooms; this has been a successful endeavor, going from 60 percent fill rates in 2008-2009 to over 93 percent in 2010-2011. This level of funding continues to push the college staff to manage resources effectively and efficiently, and to make very prudent financial decisions. It is imperative that the college meet its growth targets because future funding is determined by the District's ability to grow to its target levels.

The District's primary funding is based upon an apportionment allocation made by the State of California Community Colleges Chancellor's Office. The primary basis for the Chancellor's apportionment calculation is the District's reporting of Full-Time Equivalent Students (FTES). Below is the District's five-year trend for FTES:



VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011

Once the Chancellor's Office calculates the District's base apportionment, it reduces the net amount to be distributed by the amount of property taxes and enrollment fees expected to be paid directly to the District. The matrix below lists the three components and illustrates the net effect of the changes. Overall, total apportionment increased by \$436,514.

	2011	2010	Change
Property tax revenue	\$ 7,176,579	\$ 6,257,671	\$ 918,908
Tuition and fees	2,818,960	2,950,173	(131,213)
Apportionment	38,515,827	38,867,008	(351,181)
Total	<u>\$ 48,511,366</u>	<u>\$ 48,074,852</u>	<u>\$ 436,514</u>

SELECTED HIGHLIGHTS

During fiscal year 2010-2011, total FTES increased approximately 0.31 percent for credit courses and decreased 17.3 percent for non-credit courses. The decrease in non-credit classes was due mainly to the cessation of winter session course offerings.

As mentioned previously, credit and non-credit FTES, along with other workload measures, are the basis for the District's State apportionment. Workload measure directly related to credit and non-credit FTES account for over 67 percent of the District's general fund budget.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities and net assets of the District as of the end of the fiscal year, and is prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector organizations. The Statement of Net Assets is a point of time financial statement whose purpose is to present to the readers a fiscal snapshot of the District. The Statement of Net Assets presents end-of-year data concerning assets, liabilities, and net assets.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue operations of the District. Readers are also able to determine how much the District owes vendors and employees. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the District.

(Amounts in thousands)

	2011	2010	* Change
ASSETS			
Current Assets			
Cash and investments	\$ 72,625	\$ 86,330	\$ (13,705)
Accounts receivable	12,837	13,588	(751)
Other current assets	1,409	934	475
Total Current Assets	<u>86,871</u>	<u>100,852</u>	<u>(13,981)</u>
Non Current Assets			
Investments	23,103	21,411	1,692
OPEB asset	5,674	2,234	3,440
Capital assets (net)	111,867	98,570	13,297
Total Non Current Assets	<u>140,644</u>	<u>122,215</u>	<u>18,429</u>
Total Assets	<u><u>\$227,515</u></u>	<u><u>\$223,067</u></u>	<u><u>\$ 4,448</u></u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 8,407	\$ 12,447	\$ (4,040)
Current portion of long-term obligations	1,033	312	721
Total Current Liabilities	<u>9,440</u>	<u>12,759</u>	<u>(3,319)</u>
Long-Term Obligations			
Total Liabilities	<u>149,826</u>	<u>148,762</u>	<u>1,064</u>
Total Liabilities	<u><u>159,266</u></u>	<u><u>161,521</u></u>	<u><u>(2,255)</u></u>
NET ASSETS			
Invested in capital assets	8,925	15,825	(6,900)
Restricted	10,100	20,943	(10,843)
Unrestricted	49,224	24,778	24,446
Total Net Assets	<u>68,249</u>	<u>61,546</u>	<u>6,703</u>
Total Liabilities and Net Assets	<u><u>\$227,515</u></u>	<u><u>\$223,067</u></u>	<u><u>\$ 4,448</u></u>

*Restated

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011

The difference between total assets and total liabilities is one indicator of the current financial condition of the District; the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. The District's net assets increased from last year by \$6.7 million for the fiscal year ending June 30, 2011. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are states at historical cost less accumulated depreciation.

The Net Assets are divided into three major categories. The first category, *invested in capital assets*, provides the equity amount in the property, plant and equipment owned by the District. The second category, *expendable restricted net assets*, are net assets available for expenditure by the District, but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. The final category is *unrestricted net assets* that are available to the District for any lawful purpose of the District.

- Approximately 74 percent of the cash balance and investments is cash deposited in the San Bernardino County Treasury Pool. All funds are invested in accordance with Board Policy, which emphasizes prudence, safety, liquidity, and the return on investment. The Statement of Cash Flows contained within these financial statements provides greater detail regarding the sources and uses of cash.
- The majority of the accounts receivable balance in the amount of \$12.6 million is from Federal and State sources for grant and entitlement programs.
- Capital assets had a net balance of \$111.9 million. Depreciation expense of \$3.7 million was recognized during 2010-2011.
- Accounts payable in the amount of \$5.9 million are amounts due as of the fiscal year-end for goods and services received as of June 30, 2011. Interest payable accruals total \$2.3 million. Other current liabilities in the amount of \$1.2 million related mainly to deferred revenues and the current portion of compensated absences payable, bonds payable, and lease obligations; non-current liabilities in the amount of \$149.8 million include noncurrent portions for compensated absences payable, general obligation bonds, and lease obligations have been recognized for the year ended June 30, 2011.
- The District currently has \$142.5 million outstanding related to the issuance of general obligation debt. Additional information regarding long-term debt is included in the Debt Administration section of this discussion and analysis.
- The District's current investment in capital assets, net of related debt is \$8.9 million.
- During 2009-2010, the District made a \$6.5 million contribution to its irrevocable post employment benefits (OPEB) trust. As of June 30, 2011, the trust had a balance of \$7.85 million.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented in the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the operating and non-operating revenues earned, whether received or not by the District, the operating and non-operating expenses incurred, whether paid or not by the District, and any other revenues, expenses, gains and/or losses earned or incurred by the District. Thus, this Statement presents the District's results of operations.

(Amounts in thousands)

	2011	2010	Change
Operating Revenues			
Tuition and fees	\$ 2,819	\$ 2,950	\$ (131)
Auxiliary sales and charges	4,411	4,310	101
Total Operating Revenues	<u>7,230</u>	<u>7,260</u>	<u>(30)</u>
Operating Expenses			
Salaries and benefits	47,046	49,994	(2,948)
Supplies and maintenance	13,754	16,794	(3,040)
Student financial aid	31,686	32,433	(747)
Depreciation	3,694	3,404	290
Total Operating Expenses	<u>96,180</u>	<u>102,625</u>	<u>(6,445)</u>
Loss on Operations	<u>(88,950)</u>	<u>(95,365)</u>	<u>6,415</u>
Nonoperating Revenues			
State apportionments	38,516	38,867	(351)
Property taxes	7,176	6,258	918
Other taxes	7,220	-	7,220
Grants and contracts	38,796	44,365	(5,569)
Other nonoperating revenues (expenses)	<u>3,444</u>	<u>(1,205)</u>	<u>4,649</u>
Total Nonoperating Revenue	<u>95,152</u>	<u>88,285</u>	<u>6,867</u>
Other Revenues			
Local capital income	<u>500</u>	<u>-</u>	<u>500</u>
Change in Net Assets	<u>\$ 6,702</u>	<u>\$ (7,080)</u>	<u>\$ 13,782</u>

The schedule above has been prepared from the Statement of Revenues, Expenses, and Changes in Net Assets. State general apportionment, while budgeted for operations, is considered non-operating revenues, according to the Governmental Accounting Standards Board's prescribed reporting format.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011

Total operating revenues reflect a decrease in tuition and fees of \$131,213 from the previous year. More than half of the District's students qualify for the Board of Governor's Grant (BOGG), which waives their enrollment fees. Grants and contracts increase and decrease when grant period ends or when new grants are obtained by the District. Auxiliary sales and charges reflect decreases in bookstore sales.

Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for operating revenues and to fulfill the mission of the District. Non-operating revenues are those received or pledged for which good and services are not provided; for example, State appropriations are non-operating revenue because they are provided by the legislature to the District without the legislature directly receiving commensurate goods and services for those revenues.

- Tuition and fees are generated by the resident, non-resident, and foreign fees paid by the students attending Victor Valley Community College, including fees such as parking fees, community services classes, and other related fees.
- Non-capital grants and contracts are primarily those received from Federal and State sources and used in the instructional program.
- State apportionment is generated based on the workload measures reported to the State by the District. The District has experienced slight increases in the various workload measures.
- Local property taxes are received through the Auditor-Controller's Office for San Bernardino and Los Angeles Counties. The amount received for property taxes is deducted from the total State general apportionment amount calculated by the State for the District.

Total operating expenses decreased by \$6.45 million. The decrease is comprised of four parts:

1. Salaries and benefits decreased by \$2.95 million;
2. Supplies, maintenance, payments to students, and other operating expenses decreased by \$3.04 million;
3. Payments to students decreased by \$747,000; and
4. Depreciation and amortization increased by \$290,000.

Operating expenses are 48.9 percent related to personnel costs. The balance of operating expenses is for supplies, materials, other operating expenses, financial aid, utilities, and depreciation expense.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they come due, and the need for external financing.

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash used by the operating activities of the District. The second part details cash received for non-operating, non-investing and non-capital financing purposes. The third part shows cash flows from capital and related financing activities. This part deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

(Amounts in thousands)

	2011	2010	Change
Cash Provided by (Used in)			
Operating activities	\$ (93,142)	\$ (93,329)	\$ 187
Non-capital financing activities	92,651	91,029	1,622
Capital financing activities	(12,316)	(25,398)	13,082
Investing activities	793	9,458	(8,665)
Net Increase (Decrease) in Cash	(12,014)	(18,240)	6,226
Cash, Beginning of Year	107,742	125,982	(18,240)
Cash, End of Year	<u>\$ 95,728</u>	<u>\$ 107,742</u>	<u>\$ (12,014)</u>

The primary operating activities contributing to cash flow are student tuition and fees, while the primary operating activity using cash flow throughout the year is the payment of salaries and benefits.

Even though State apportionment, property taxes, Federal, State, and local grants and contracts are the primary source of non-capital related revenue (and cash flow), GASB accounting standards require that these sources of revenue be shown as non-operating revenue, since they come from general resources of the Federal and State government and not from the primary users of the college's programs and services (students). The District depends upon this funding as the primary source of funds to continue the current level of operations.

Cash flow used in operating activities decreased by \$187,000 during fiscal year 2010-2011.

Cash flow provided by non-capital financing activities increased by \$1.6 million from 2009-2010. This was caused by a \$2.5 million increase in apportionment, offset by a \$900,000 decrease in property taxes and other receipts.

The primary source of funds included in capital and related financing activities is the issuance of general obligation bonds.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION) JUNE 30, 2011

District's Fiduciary Responsibility

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs and donors for student loans and scholarships. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the District's other financial statements because these assets cannot be used to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Capital Assets

At June 30, 2011, the District had total capital assets of \$151.1 million consisting of land, buildings and building improvements, construction in progress, vehicles, data processing equipment, and other office equipment. These assets have accumulated depreciation of \$39.2 million.

Capital additions consist primarily of replacement, renovation and new construction of facilities, as well as significant investments in equipment, including information technology. Current year additions were funded with a combination of special categorical, unrestricted general fund dollars, and capital outlay appropriations.

(Amounts in thousands)

	Balance		
	Beginning of Year	Additions	Deletions
	\$	\$	\$
Land and construction in progress	\$ 16,172	\$ 13,759	\$ -
Buildings and improvements	106,343	3,064	-
Furniture and equipment	11,600	167	-
Subtotal	134,115	16,990	-
Accumulated depreciation	(35,544)	(3,694)	-
	<u>\$ 98,571</u>	<u>\$ 13,296</u>	<u>\$ -</u>
			<u>\$ 111,867</u>

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011

Debt

At June 30, 2011, the District had \$150.9 million in total debt. The District was successful in passing a bond measure before the voters in November 2008. The general obligation bond was used in part to retire the outstanding certificates of participation debt. See notes to the financial statements for additional information on long-term obligations.

(Amounts in thousands)

	Balance			
	Beginning of Year	Additions	Deletions	Balance End of Year
General obligation bonds	\$ 140,796	\$ 1,731	\$ 51	\$ 142,476
Compensated absences	1,511	85	-	1,596
Capital leases	6,768	214	195	6,787
Total Long-Term Debt	<u>\$ 149,075</u>	<u>\$ 2,030</u>	<u>\$ 246</u>	<u>\$ 150,859</u>
Amount due within one year				<u>\$ 1,033</u>

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

The State's financial picture is not improving. The approved State budget for 2011-2012 includes certain mid-year budget cut triggers that may further reduce the apportionment to the District by approximately \$700,000.

The 2011-2012 State budget for community colleges included no Cost of Living Adjustment (COLA) on general purpose apportionments. District enrollment continues to grow, reflecting the current economic condition of the State and the nation. Students appreciate the affordability of community colleges as they polish their skills or prepare for transfer to four year institutions.

The next few years will be challenging as the State attempts to balance its budget. The District has been through this cycle over the years and will, no doubt, recover as it always has. The District will look for other revenue sources that will help cushion these lean budget times at the State.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)

JUNE 30, 2011

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the: Office of Fiscal Services, Victor Valley Community College, 18422 Bear Valley Road, Victorville, California 92395-5850.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS - PRIMARY GOVERNMENT JUNE 30, 2011

ASSETS

Current Assets

Cash and cash equivalents - unrestricted	\$ 1,472,859
Cash and cash equivalents - restricted	12,708
Investments - unrestricted	10,727,030
Investments - restricted	60,413,191
Accounts receivable	12,583,456
Student loans receivable	241,757
Due from fiduciary funds	12,059
Prepaid expenses	674,188
Stores inventories	734,368
Total Current Assets	86,871,616

Noncurrent Assets

Investments - unrestricted	23,102,592
Other postemployment benefits other than pensions (OPEB) asset	5,674,303
Nondepreciable capital assets	29,930,842
Depreciable capital assets, net of depreciation	81,936,109
Total Noncurrent Assets	140,643,846
TOTAL ASSETS	227,515,462

LIABILITIES

Current Liabilities

Accounts payable	5,921,791
Accrued interest payable	2,313,792
Due to fiduciary funds	1,370
Deferred revenue	170,643
Compensated absences payable - current portion	122,451
Bonds payable - current portion	690,000
Lease obligations - current portion	220,361
Total Current Liabilities	9,440,408

Noncurrent Liabilities

Compensated absences payable - noncurrent portion	1,473,173
Bonds payable - noncurrent portion	141,786,116
Lease obligations - noncurrent portion	6,567,007
Total Noncurrent Liabilities	149,826,296
TOTAL LIABILITIES	159,266,704

NET ASSETS

Invested in capital assets, net of related debt	8,925,123
Restricted for:	
Debt service	4,612,923
Capital projects	3,092,448
Educational programs	2,393,978
Unrestricted	49,224,286
TOTAL NET ASSETS	\$ 68,248,758

The accompanying notes are an integral part of these financial statements.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2011

OPERATING REVENUES

Student Tuition and Fees	\$ 7,584,201
Less: Scholarship discount and allowance	(4,765,241)
Net tuition and fees	<u>2,818,960</u>
Auxiliary Enterprise Sales and Charges	
Bookstore	3,135,180
Cafeteria	749,250
Other Operating Revenues	526,956
	<u>7,230,346</u>

TOTAL OPERATING REVENUES

OPERATING EXPENSES

Salaries	39,331,419
Employee benefits	7,715,051
Supplies, materials, and other operating expenses and services	12,852,905
Student financial aid	31,685,806
Equipment, maintenance, and repairs	900,743
Depreciation	3,694,202
	<u>96,180,126</u>

TOTAL OPERATING EXPENSES

OPERATING LOSS

NONOPERATING REVENUES (EXPENSES)

State apportionments, noncapital	38,515,827
Local property taxes, levied for general purposes	7,176,579
Taxes levied for other specific purposes	7,219,993
Federal grants	34,590,869
State grants	4,205,170
State taxes and other revenues	1,839,317
Investment income	792,842
Interest expense on capital related debt	(6,405,952)
Investment income on capital asset-related debt, net	1,738,776
Other nonoperating revenue	5,478,654
	<u>95,152,075</u>

TOTAL NONOPERATING REVENUES (EXPENSES)

INCOME BEFORE OTHER REVENUES AND EXPENSES

Local revenues, capital	500,168
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TOTAL INCOME BEFORE OTHER

REVENUES AND EXPENSES

CHANGE IN NET ASSETS

NET ASSETS, BEGINNING OF YEAR	56,471,859
PRIOR PERIOD RESTATEMENT	5,074,436
NET ASSETS, BEGINNING OF YEAR (AS RESTATED)	<u>61,546,295</u>
NET ASSETS, END OF YEAR	<u>\$ 68,248,758</u>

The accompanying notes are an integral part of these financial statements.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 2,564,999
Payments to vendors for supplies and services	(21,009,421)
Payments to or on behalf of employees	(47,423,313)
Payments to students for scholarships and grants	(31,685,806)
Auxiliary enterprise sales and charges	4,411,386
Net Cash Flows From Operating Activities	(93,142,155)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State apportionments	30,022,872
Grant and contracts	45,984,215
Property taxes - non-debt related	7,176,579
State taxes and other apportionments	1,839,317
Other non-operating	7,628,325
Net Cash Flows From Non-Capital Financing Activities	92,651,308

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Purchase of capital assets	(15,923,815)
Local revenue, capital projects	500,168
Property taxes - related to capital debt	7,219,993
Proceeds from capital debt	1,945,750
Principal paid on capital debt	(246,634)
Interest paid on capital debt	(7,549,885)
Interest received on capital asset-related debt	1,738,776
Net Cash Flows From Capital Financing Activities	(12,315,647)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received from investments	792,842
NET CHANGE IN CASH AND CASH EQUIVALENTS	(12,013,652)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

CASH AND CASH EQUIVALENTS, END OF YEAR

CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 95,728,380
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The accompanying notes are an integral part of these financial statements.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, Continued FOR THE YEAR ENDED JUNE 30, 2011

RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating Loss	\$ <u>(88,949,780)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows from Operating Activities	
Depreciation expense	3,694,202
Changes in Assets and Liabilities	
Receivables	(241,757)
Stores inventories	59,585
Prepaid expenses and other assets	(3,974,358)
Accounts payable and accrued liabilities	(3,802,502)
Deferred revenue	(12,204)
Compensated absences	84,659
Total Adjustments	<u>(4,192,375)</u>
Net Cash Flows From Operating Activities	\$ <u>(93,142,155)</u>

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

Cash in banks	\$ 1,485,567
Cash in county treasury	71,140,221
SunAmerica Annuity and Life Assurance Company	23,102,592
Total Cash and Cash Equivalents	\$ <u>95,728,380</u>

NON CASH TRANSACTIONS

On behalf payments for benefits	\$ <u>942,989</u>
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The accompanying notes are an integral part of these financial statements.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS JUNE 30, 2011

	Trust
ASSETS	
Cash and cash equivalents	\$ 228,238
Investments	50,368
Accounts receivable	5,691
Due from primary government funds	1,370
Total Assets	<u>285,667</u>
LIABILITIES	
Accounts payable	195
Due to primary government funds	12,059
Due to student groups	39,080
Total Liabilities	<u>51,334</u>
NET ASSETS	
Unreserved	234,333
Total Net Assets	<u>\$ 234,333</u>

The accompanying notes are an integral part of these financial statements.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FOR THE YEAR ENDED JUNE 30, 2011

	Trust
ADDITIONS	
Local revenues	<u>\$ 281,149</u>
DEDUCTIONS	
Services and operating expenditures	<u>172,961</u>
OTHER FINANCING USES	
Operating transfers out	<u>(115,886)</u>
Change in Net Assets	<u>(7,698)</u>
Net Assets - Beginning	<u>242,031</u>
Net Assets - Ending	<u>\$ 234,333</u>

The accompanying notes are an integral part of these financial statements.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 1 - ORGANIZATION

Victor Valley Community College District (the District) was established in 1961 as a political subdivision of the State of California and provides educational services to residents of the surrounding area. The District operates under a locally elected five-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Funds, special revenue funds, and capital project funds, but these budgets are managed at the department level.

Currently, the District operated one community college located in Victorville, California. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provision of Governmental Accounting Standards Board (GASB) Statement No. 39. The District has considered all potential component units in determining how to define the reporting entity using criteria set forth in accounting principles generally accepted in the United States of America. The basic criteria for including a component unit are (1) the economic resources held or received by the other entity are entirely or almost entirely for the direct benefit of the District, (2) the District is entitled to, or has the ability to otherwise access, a majority of the economic resources held or received by the other entity, and (3) the other entity's resources to which the District is entitled or has the ability to otherwise access are significant to the District. If any of these criteria are not met, the final criterion for including a component unit is whether the other entity is closely related to, or financially integrated with, the District. The District identified no component units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37, No. 38, and No. 39. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required.

Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, operating revenues consist primarily of student fees and auxiliary activities through the bookstore and cafeteria.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent student (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated. Revenue from Federal and State grants and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (US GAAP) as applicable to colleges and universities, as well as those prescribed by the California Community Colleges Chancellor's Office. The District reports are based on all applicable GASB pronouncements, as well as applicable FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date. When applicable, certain prior year amounts have been reclassified to conform to current year presentation. The budgetary and financial accounts of the District are maintained in accordance with the State Chancellor's Office's *Budget and Accounting Manual*.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37, No. 38 and No. 39. The business-type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
 - Statements of Net Assets - Primary Government
 - Statements of Revenues, Expenses, and Changes in Net Assets - Primary Government
 - Statements of Cash Flows - Primary Government
 - Financial Statements for the Fiduciary Funds including:
 - Statements of Fiduciary Net Assets
 - Statements of Changes in Fiduciary Net Assets
- Notes to the Financial Statements

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include unrestricted cash with county treasury balances for purposes of the statement of cash flows. Restricted cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Investments

Investments held at June 30, 2011, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets represent investments required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the bonded debt issuance.

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District does not record an allowance for uncollectible accounts because collectability of the receivables from such sources is probable. When receivables are determined to be uncollectible, a direct write-off is recorded.

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30, 2011.

Stores Inventories

Stores inventories consist primarily of bookstore merchandise held for resale to the students and faculty of the college. Inventories are stated at the lower of cost, or market on an average basis. The cost is recorded as an expense as the inventory is consumed.

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction-in-progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of \$5,000. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. The District does not possess any infrastructure. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. Major outlays for capital improvements are capitalized as construction-in-progress as the projects are constructed.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Depreciation of capital assets is computed and recorded utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 39 years; site improvements, 20 years; machinery and equipment, 5 to 20 years; vehicles, 8 years.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the entity-wide financial statements.

Deferred Issuance Costs, Premiums, and Discounts

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Compensated Absences

Compensated absences are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year-end as liabilities of the District. The District participates in underloading, whereby any faculty who fall below load one semester may be assigned additional classes the following semester to make up for the shortage.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for eligible employees when they retire.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Deferred revenues include (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year, and (2) amounts received from Federal and State grants received before the eligibility requirements are met.

Noncurrent Liabilities

Noncurrent liabilities include bonds, compensated absences, and capital lease obligations, with maturities greater than one year.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Net Assets

GASB Statements No. 34 and No. 35 report equity as "Net Assets" and represent the difference between assets and liabilities. Net assets are classified according to imposed restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

Invested in Capital Assets, Net of Related Debt: Capital Assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted - Expendable: Net assets whose use by the District is subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or by the passage of time. Net assets may be restricted for capital projects, debt repayment, and/or educational programs.

Unrestricted: Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The entity-wide financial statements report \$10,099,349 of restricted net assets.

State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. The County Assessor is responsible for assessment of all taxable real property. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Bernardino bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Scholarship Discounts and Allowances

Student tuition and fee revenue is reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf. To the extent that fee waivers and discounts have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, and Stafford Direct Loan programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the related *Compliance Supplement*. During the year ended June 30, 2011, the District distributed \$8,999,582 in direct lending through the U.S. Department of Education. These amounts for the Direct Loan program were included as revenues and expenses within the accompanying financial statements.

On Behalf Payments

GASB Statement No. 24 requires direct on behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees for another legally separate entity be recognized as revenues and expenditures by the employer entity. The State of California makes direct on behalf payments to the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of all community colleges in California.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Interfund Activity

Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the entity-wide financial statements.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship, or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

NOTE 3 - DEPOSITS AND INVESTMENTS

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

Summary of Deposits and Investments

Deposits and investments of the Primary Government as of June 30, 2011, consist of the following:

Primary government	\$ 95,728,380
Fiduciary funds	278,606
	<hr/>
Total Deposits and Investments	\$ 96,006,986
Cash on hand and in banks	\$ 1,638,555
Cash in revolving	75,250
Investments	94,293,181
	<hr/>
Total Deposits and Investments	\$ 96,006,986

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Investment Pool and SunAmerica Annuity and Life Assurance Company.

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Average Days to Maturity
San Bernardino County Treasury Pool	\$ 71,405,793	360 days
SunAmerica Annuity and Life Assurance Company	23,102,592	N/A
Total	<u>\$ 94,508,385</u>	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating June 30, 2011
San Bernardino County Treasury Pool	\$ 71,405,793	Not Required	AAA
SunAmerica Annuity and Life Assurance Company	23,102,592	Not Required	N/A
Total	<u>\$ 94,508,385</u>		

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. Investments in any one issuer that represent five percent or more of the total investments is the Guaranteed Investment Contract (GIC) with SunAmerica Annuity and Life Assurance Company which represents 24 percent.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2011, the District did not have any deposits exposed to custodial credit risk because all balances were insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

	Primary Government	Fiduciary Funds
Federal Government		
Categorical aid	\$ 1,092,019	\$ -
State Government		
Apportionment	9,351,234	-
Categorical aid	187,773	-
Lottery	682,880	-
Local Sources		
Interest	143,437	-
Other local sources	1,126,113	5,691
Total	<u>\$ 12,583,456</u>	<u>\$ 5,691</u>
Student receivables	<u>\$ 241,757</u>	<u>\$ -</u>

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2011, was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	\$ 11,655,253	\$ -	\$ -	\$ 11,655,253
Construction in progress	4,517,116	13,758,473	-	18,275,589
Total Capital Assets Not Being Depreciated	16,172,369	13,758,473	-	29,930,842
 Capital Assets Being Depreciated				
Land improvements	10,119,519	2,000,484	-	12,120,003
Buildings and improvements	96,223,039	1,064,063	-	97,287,102
Furniture and equipment	11,599,887	167,462	-	11,767,349
Total Capital Assets Being Depreciated	117,942,445	3,232,009	-	121,174,454
Total Capital Assets	134,114,814	16,990,482	-	151,105,296
 Less Accumulated Depreciation				
Land improvements	3,242,145	85,233	-	3,327,378
Buildings and improvements	23,652,306	2,672,661	-	26,324,967
Furniture and equipment	8,649,692	936,308	-	9,586,000
Total Accumulated Depreciation	35,544,143	3,694,202	-	39,238,345
 Net Capital Assets	\$ 98,570,671	\$ 13,296,280	\$ -	\$ 111,866,951

Depreciation expense for the year was \$3,694,202.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

	Primary Government	Fiduciary Funds
Accrued payroll	\$ 2,289,318	\$ -
Construction	1,864,806	-
Other	1,767,667	195
Total	<u><u>\$ 5,921,791</u></u>	<u><u>\$ 195</u></u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue consisted of the following:

	Primary Government
Student fees	\$ 64,471
Other local	106,172
Total	<u><u>\$ 170,643</u></u>

NOTE 8 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2011, the amount owed between the government and the fiduciary funds were \$12,059 and \$1,370, respectively.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2011 fiscal year, there were no amounts transferred between the primary government and the fiduciary funds.

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2011 fiscal year consisted of the following:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year
Bonds and Notes Payable					
2008 General obligation bonds, Series A	\$ 54,160,787	\$ 246,762	\$ -	\$ 54,407,549	\$ 690,000
2008 General obligation bonds, Series B	12,000,000	-	-	12,000,000	-
2008 General obligation bonds, Series C	72,870,197	1,484,540	-	74,354,737	-
Premium on issuance	1,765,005	-	51,175	1,713,830	-
Total Bonds and Notes Payable	<u>140,795,989</u>	<u>1,731,302</u>	<u>51,175</u>	<u>142,476,116</u>	<u>690,000</u>
Other Liabilities					
Compensated absences	1,510,965	84,659	-	1,595,624	122,451
Capital leases	<u>6,768,379</u>	<u>214,448</u>	<u>195,459</u>	<u>6,787,368</u>	<u>220,361</u>
Total Other Liabilities	<u>8,279,344</u>	<u>299,107</u>	<u>195,459</u>	<u>8,382,992</u>	<u>342,812</u>
Total Long-Term Debt	<u><u>\$ 149,075,333</u></u>	<u><u>\$ 2,030,409</u></u>	<u><u>\$ 246,634</u></u>	<u><u>\$ 150,859,108</u></u>	<u><u>\$ 1,032,812</u></u>

Payments on the general obligation bonds are made by the bond interest and redemption fund with local property tax revenues. Capital lease payments are made by the General unrestricted fund. The compensated absences will be paid by the fund for which the employee worked.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds				Bonds	
				Outstanding July 1, 2010	Issued	Accreted	Redeemed	Outstanding June 30, 2011	
2009	08/01/31	3.00% - 5.375%	\$ 54,004,963	\$ 54,160,787	\$ -	\$ 246,762	\$ -	\$ 54,407,549	
2009	08/01/33	6.67%	12,000,000	12,000,000	-	-	-	12,000,000	
2009	06/01/49	3.17% - 7.20%	70,017,065	72,870,197	-	1,484,540	-	74,354,737	
				\$ 139,030,984	\$ -	\$ 1,731,302	\$ -	\$ 140,762,286	

2008 General Obligation Bonds, Series A

In June 2009, the District issued \$54,004,963 of the Victor Valley Community College District, 2008 General Obligation Bonds, Series A. The bonds issued included \$27,635,000 of current interest serial bonds, \$24,440,000 of current interest term bonds, and \$1,929,963 of capital appreciation bonds, with the capital appreciation bonds accreting to \$5,410,000. The bonds have a final maturity to occur on August 1, 2031, with interest rates from 3.00 percent to 5.375 percent. Proceeds from the sale of the bonds were used to finance the acquisition, construction, modernization and equipping of certain District property and facilities, as well as to refund all of the Victor Valley Community College District, 1997 variable rate certificates of participation. At June 30, 2011, the principal balance outstanding was \$54,407,549.

2008 General Obligation Bonds – Build America Bonds, Series B

In June 2009, the District issued \$12,000,000 of the Victor Valley Community College District, 2008 General Obligation Bonds - Build America Bonds, Series B. The bonds have a final maturity to occur on August 1, 2033, with an interest rate of 6.67 percent. Proceeds from the sale of the bonds were used to finance the acquisition, construction, modernization and equipping of certain District property and facilities, as well as to refund all of the Victor Valley Community College District, 1997 variable rate certificates of participation. At June 30, 2011, the principal balance outstanding was \$12,000,000.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

2008 General Obligation Bonds, Series C

In June 2009, the District issued \$70,017,065 of the Victor Valley Community College District, 2008 General Obligation Bonds, Series C. The bonds issued included \$16,135,000 of current interest serial bonds, \$20,000,000 of current interest term bonds, \$6,600,646 of capital appreciation serial bonds, with the capital appreciation bonds accreting to \$27,000,000, \$21,177,379 of capital appreciation term bonds, with capital appreciation bonds accreting to \$248,200,000, and \$6,104,040 of convertible capital appreciation term bonds, with a conversion value of \$12,070,000. The bonds have a final maturity to occur on June 1, 2049, with interest rates from 3.17 percent to 7.20 percent. Proceeds from the sale of the bonds were used to finance the acquisition, construction, modernization and equipping of certain District property and facilities. At June 30, 2011, the principal balance outstanding was \$74,354,737. Unamortized premium on issuance at June 30, 2011, was \$1,713,830.

The 2008 General Obligation Bonds, Series A mature through 2032 as follows:

Fiscal Year	Principal	Accreted Interest	Current Interest	Total
2012	\$ 690,000	\$ -	\$ 2,614,588	\$ 3,304,588
2013	710,000	-	2,590,038	3,300,038
2014	870,000	-	2,558,438	3,428,438
2015	1,045,000	-	2,520,138	3,565,138
2016	1,230,000	-	2,474,638	3,704,638
2017-2021	5,892,549	3,077,451	11,931,313	20,901,313
2022-2026	15,350,000	-	9,654,988	25,004,988
2027-2031	25,630,000	-	4,348,681	29,978,681
2032	2,990,000	-	74,750	3,064,750
Total	<u>\$ 54,407,549</u>	<u>\$ 3,077,451</u>	<u>\$ 38,767,572</u>	<u>\$ 96,252,572</u>

The 2008 General Obligation Bonds, Series B mature through 2034 as follows:

Fiscal Year	Principal	Current Interest	Total
2012	\$ -	\$ 800,400	\$ 800,400
2013	-	800,400	800,400
2014	-	800,400	800,400
2015	-	800,400	800,400
2016	-	800,400	800,400
2017-2021	-	4,002,000	4,002,000
2022-2026	-	4,002,000	4,002,000
2027-2031	-	4,002,000	4,002,000
2032-2034	12,000,000	1,020,177	13,020,177
Total	<u>\$ 12,000,000</u>	<u>\$ 17,028,177</u>	<u>\$ 29,028,177</u>

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

The 2008 General Obligation Bonds, Series C mature through 2049 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest	Total
2012	\$ -	\$ -	\$ 2,127,763	\$ 2,127,763
2013	181,799	33,201	2,127,763	2,342,763
2014	230,618	74,382	2,127,763	2,432,763
2015	270,453	129,547	2,127,763	2,527,763
2016	299,281	195,719	2,127,763	2,622,763
2017-2021	1,435,379	1,789,621	11,883,531	15,108,531
2022-2026	700,342	2,244,658	14,787,875	17,732,875
2027-2031	1,587,784	5,002,216	14,787,875	21,377,875
2032-2036	7,118,247	27,296,263	14,787,875	49,202,385
2037-2041	32,089,155	35,083,420	9,742,431	76,915,006
2042-2046	23,890,277	65,539,678	3,247,169	92,677,124
2047-2049	6,551,402	80,854,900	-	87,406,302
Total	\$ 74,354,737	\$ 218,243,605	\$ 79,875,571	\$ 372,473,913

Capital Leases

The District has entered into agreements to lease equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with option to purchase is summarized below:

	Equipment
Balance, July 1, 2010	\$ 9,945,381
Additions	214,448
Payments	(508,685)
Balance, June 30, 2011	\$ 9,651,144

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2012	\$ 524,270
2013	537,590
2014	551,310
2015	565,441
2016	579,996
2017-2021	3,134,067
2022-2026	3,569,287
2027	189,183
Total	9,651,144
Less: Amount Representing Interest	(2,863,776)
Present Value of Minimum Lease Payments	\$ 6,787,368

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2011, amounted to \$1,595,624.

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) ASSET

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

Plan Description

The Victor Valley Community College District Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical, vision, and life insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 40 retirees and beneficiaries currently receiving benefits, and 320 active plan members.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually through agreements between the District and the bargaining units. For fiscal year 2010-2011, the District contributed \$449,790 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Asset

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the payments of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB asset to the Plan:

Annual required contribution	\$ 549,184
Adjustment to annual required contribution	(3,539,811)
Annual OPEB cost (expense)	(2,990,627)
Contribution made	(449,790)
Increase in net OPEB asset	(3,440,417)
Net OPEB asset, July 1, 2010	(2,233,886)
Net OPEB asset, June 30, 2011	\$ (5,674,303)

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB (asset) obligation for the past three years is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB (Asset) Obligation
2009	\$ 737,899	\$ 356,093	48%	\$ 3,728,687
2010	924,333	6,886,906	745%	(2,233,886)
2011	549,184	449,790	82%	(5,674,303)

Funding Status and Funding Progress

Actuarial Accrued Liability (AAL)	\$ 8,274,773
Actuarial Value of Plan Assets	7,845,902
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 428,871</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	95%
Covered Payroll	\$ 35,049,091
UAAL as Percentage of Covered Payroll	<u>1.22%</u>

The above noted actuarial accrued liability was based on the June 13, 2011, actuarial valuation. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations.

In the June 13, 2011, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a seven percent investment rate of return, based on the Plan being funded through Futuris. The cost trend rate used was four percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2011, was 27 years. At June 30, 2011, the irrevocable trust with Futuris held assets in the amount of \$7,845,902.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 11 - RISK MANAGEMENT

Insurance Coverages

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for property with coverages of \$250,000 per occurrence, subject to various policy limits. The District also purchases commercial insurance for general liability claims with coverage up to \$1 million per occurrence, all subject to various deductibles. Employee health coverage benefits are covered by a commercial insurance policy purchased by the District. The District provides health insurance benefits to District employees, their families, and retired employees of the District.

Joint Powers Authority Risk Pools

During fiscal year ending June 30, 2011, the District contracted with the Statewide Association of Community Colleges Joint Powers Authority (JPA) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2010-2011, the District participated in the Protected Insurance Program for Schools and Colleges (PIPS) Joint Powers Authority (JPA), an insurance purchasing pool. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience, and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall saving. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the JPA. Participation in the JPA is limited to K-12 and community college districts that can meet the JPA's selection criteria.

Employee Medical Benefits

The District has contracted with Southern California Schools Employee Benefit Association (SCSEBA) to provide employee medical benefits. Southern California Schools Employee Benefit Association (SCSEBA) is a shared risk pool comprised of community colleges and school districts in Southern California. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of the claim's flow. The Board of Directors has the right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California, 95826.

Funding Policy

Active members are required to contribute 8.0 percent of their salary while the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-2011 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's total contributions to CalSTRS for the fiscal years ended June 30, 2011, 2010, and 2009, were \$1,823,217, \$1,844,374, and \$1,760,364, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under CalPERS a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary (7.0 percent of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The District's contribution rate to CalPERS for fiscal year 2010-2011 was 10.707 percent of covered payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2011, 2010, and 2009, were \$1,386,583, \$1,280,114, and \$1,199,500, respectively, and equaled 100 percent of the required contributions for each year.

PARS-ARS (Public Agency Retirement System Alternate Retirement System)

The District contributes to the Public Agency Retirement System Alternate Retirement System (PARS-ARS), a defined contribution retirement plan administered by the District. PARS-ARS employs a corporate Trustee and Trust Administrator who receives and invests contributions to the Plan and manages the assets of the Trust.

Active plan members contribute 3.75 percent of their salary and the District contributes the equivalent 3.75 percent. Interest earnings on the plan investments minus administrative costs are credited to the members accounts monthly and accumulate tax-free until withdrawal.

Tax Deferred Annuity

The District provides a Tax Shelter Annuity Plan for all eligible employees, as defined in the Plan documents. Participants may contribute a portion of their earnings under a 403(b) plan, which has a maximum deferral limit of \$15,000 if under age 50, and \$20,000 if over age 50. The District will not make matching contributions to the Plan on behalf of participants. However, the District absorbs some costs associated with the administration of the Plan.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal years ended June 30, 2011, 2010, and 2009, which amounted to \$942,989, \$953,933, and \$910,482, respectively, (4.267 percent) of salaries subject to CalSTRS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 13 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Statewide Association of Community Colleges and Southern California Schools Employee Benefit Association (SCSEBA) Joint Powers Authority JPAs. The District pays annual premiums for its property liability, excess liability, and health coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

The JPAs have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, transactions between the JPAs and the District are included in these statements. Audited financial statements are available from the respective entities.

The District's share of year-end assets, liabilities, or fund equity has not been calculated.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2011.

Construction Commitments

As of June 30, 2011, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Regional Public Safety Training Center	\$ 12,501,853	February 2012
Campus - Wide Roadway and Parking Lot Replacement	2,188,870	December 2011
Campus - Wide Energy Efficiency Projects	1,868,547	March 2012
	\$ 16,559,270	

The projects are funded through a combination of general obligation bonds and capital project apportionments from the California State Chancellor's Office.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Deferral of State Apportionments

As a result of the State of California economy, certain apportionments owed to the District for funding of FTES, categorical programs, and construction reimbursements which are attributable to the 2010-2011 fiscal year have been deferred to the 2011-2012 fiscal year. The total amount of funding deferred into the 2011-2012 fiscal year was \$9,351,234. These deferrals of apportionment are considered permanent with future funding also being subject to deferral into future years. As of the audit report date, the District had received all of the deferrals owed to them by the State.

Fiscal Issues Relating to State-Wide Funding Reductions

The State of California economy is continuing through a recessionary economy. The California Community College system is reliant on the State of California to appropriate the funding necessary to provide for the educational services and student support programs that are mandated for the colleges. Current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for California community colleges in addition to requiring substantial budget reductions.

The District has implemented budgetary reductions to counter the reductions in apportionment and program funding. However, continued reductions and deferral of cash payments will ultimately impact the District's ability to meet the goals for educational services.

NOTE 15 - PRIOR PERIOD RESTATEMENT

The beginning net assets, as reported on the Statement of Revenues, Expenses, and Changes in Net Assets - Primary Government, has been restated to properly reflect the Bond Interest and Redemption Fund that was omitted in the prior year. The restatement increases the net assets in the Primary Government in the amount of \$5,074,436. Summarized below is the result of the change:

Primary Government	
Net Assets - Beginning	\$ 56,471,859
Restatement of Bond Interest and Redemption Fund	5,074,436
Net Assets - Beginning, as Restated	<u><u>\$ 61,546,295</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2011**

Actuarial Valuation Date	Actuarial		Accrued		Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
	Actuarial of Assets (a)	Method Used (b)	Liability (AAL) -	AAL				
March 1, 2009	\$ -	\$ 6,582,497	\$ 6,582,497		0%	\$39,901,474		16.50%
March 1, 2011	7,845,902	8,274,773	428,871		95%	35,049,091		1.22%

SUPPLEMENTARY INFORMATION

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION

JUNE 30, 2011

Victor Valley Community College is a public community college operated under the Education Code of the State of California. The Community College District was established by authority of the voters who created the District in 1960. The College began classes in 1961. The present campus was started in 1963 and opened its doors to students in 1965. The College District encompasses an area of approximately 2,200 square miles and includes the communities of Adelanto, Apple Valley, Cedar Springs, Helendale, Hesperia, Lucerne Valley, Oro Grande, Phelan, Wrightwood, Los Flores, and Victorville. There were no changes in the boundaries of the District during the current year. The District's college is accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dennis Henderson	President	December 2011
Joe Range	Vice President	December 2011
Lorrie Denson	Clerk	December 2013
Joseph W. Brady	Trustee	December 2011
Michael Krause	Trustee	December 2013

ADMINISTRATION

Dr. Christopher O'Hearn	Interim Superintendent/President
G.H. Javaheripour	Vice President, Administrative Services
Mark Zacovic	Interim Executive Vice President, Instruction and Student Services
Fusako Yokotobi	Vice President, Human Resources

See accompanying notes to supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster			
Pell Grant	84.063		\$ 21,184,906
Pell Grant - Administration	84.063		21,634
Direct Loans	84.268		8,999,582
Supplemental Education Opportunity Program	84.007		391,000
Supplemental Education Opportunity Program - Administration	84.007		13,407
College Work Study	84.033		321,958
College Work Study - Administration	84.033		11,145
Academic Competitiveness Grant	84.375		37,458
Total Student Financial Assistance Cluster			<u>30,981,090</u>
Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR-UP)	84.334A		958,165
TRIO Cluster			
TRIO Student Support Services Program	84.042A		33,100
Upward Bound	84.047A		250,521
Upward Bound Math/Science	84.047M		282,126
Total TRIO Cluster			<u>565,747</u>
Pass through from California Community College Chancellor's Office			
Perkins IV, Title I, Part C	84.048	10-C01-066	494,273
Title V - Hispanic Serving Institutions Cooperative	84.031S		242,015
Pass through from Taft College			
Title V - Hispanic Serving Institutions	84.031S	[1]	541,001
Total Title V			<u>783,016</u>
Pass through from San Bernardino County Superintendent of Schools			
Tech Prep Consortium	84.243	[1]	35,000
Pass through from California Community College Chancellor's Office			
ARRA - State Fiscal Stabilization Funds	84.394	[1]	30,875
Pass through from West Ed			
Early Start Comprehensive System of Personnel Development and Resources Project	84.181	s09-110	706
Total U.S. Department of Education			<u>33,848,872</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS			
Veterans Educational Assistance	64.028		2,219
Total U.S. Department of Veterans Affairs			<u>2,219</u>

[1] Pass through entity identifying number is not available.

See accompanying notes to supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Temporary Assistance for Needy Families Cluster			
Pass through from California Community College Chancellor's Office			
Temporary Assistance for Needy Families (TANF)	93.558	[1]	\$ 121,062
Pass through from Foundation for California Community Colleges			
Child Development Careers Works! (CDC-WORKS!)	93.558	1012-144	24,702
Total Temporary Assistance for Needy Family Cluster			<u>145,764</u>
Total U.S. Department of Health and Human Services			<u>145,764</u>
U.S. DEPARTMENT OF LABOR EMPLOYMENT			
Workforce Investment Board Act (WIA)			
Pass through from the State of California Employment Development Department			
ARRA - WIA Adult Program	17.258	K077883	617,195
Total Workforce Investment Board Act Cluster			<u>617,195</u>
Total U.S. Department of Labor Employment			<u>617,195</u>
Total Federal Programs			<u>\$ 34,614,050</u>

[1] Pass through entity identifying number is not available.

See accompanying notes to supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Program	Program Entitlements		
	Current Year	Prior Year Carryover	Total Entitlement
Airframe & Powerplant Training	\$ 15,100	\$ -	\$ 15,100
Basic Skills	90,000	15,403	105,403
Career Pathways / SB 70	33,768	-	33,768
Cal Grants	894,372	-	894,372
CalWORKS	368,539	-	368,539
Care Program	206,435	56,369	262,804
Care Program - Student Aid	121,000	-	121,000
CHASEE #3 (High School Exit Exam)	-	94,545	94,545
Child Development Training Consortium	11,250	-	11,250
Child Development Mentor Teaching Program	1,091	-	1,091
Child Development - State Pre-School	152,367	-	152,367
Disabled Students Program and Services	413,740	-	413,740
Extended Opportunity Program and Services (EOPS)	609,457	36,464	645,921
Foster Kinship Care	6,000	-	6,000
Instructional Equipment Replacement	-	30,922	30,922
Lottery	174,234	475,019	649,253
Matriculation	282,980	22,971	305,951
Non-Credit Matriculation	16,249	13,308	29,557
Nursing Enrollment Growth and Retention	160,937	-	160,937
Nursing Recruitment and Retention	-	3,120	3,120
Paramedic to RN	125,000	56,124	181,124
Staff Diversity	5,884	28,245	34,129
Student Financial Assistance Programs (BFAP)	442,040	226,515	668,555
Song Brown Nursing Grant #2	40,000	-	40,000
Song Brown Nursing Grant #3	61,698	5,877	67,575
Total State Programs			

See accompanying notes to supplementary information.

Program Revenues

Cash Received	Accounts Receivable	Accounts Payable	Total Revenue	Program Expenditures
\$ 15,100	\$ -	\$ -	\$ 15,100	\$ 10,080
90,000	-	-	90,000	105,403
5,331	28,437	-	33,768	33,768
903,407	-	9,035	894,372	894,372
363,567	4,972	-	368,539	368,539
206,435	-	-	206,435	262,802
121,000	-	-	121,000	121,000
94,545	-	-	94,545	94,545
11,250	-	-	11,250	11,250
-	1,091	-	1,091	1,091
152,367	-	-	152,367	152,367
413,740	-	-	413,740	413,740
609,457	-	-	609,457	645,921
-	6,000	-	6,000	6,000
-	-	-	-	30,921
28,938	174,046	-	202,984	215,703
282,980	-	-	282,980	305,951
16,249	-	-	16,249	29,557
135,187	25,750	-	160,937	160,937
3,120	-	-	3,120	3,120
96,503	84,621	-	181,124	181,124
5,884	-	-	5,884	7,760
442,040	-	-	442,040	513,936
40,000	-	-	40,000	36,938
22,765	36,902	-	59,667	59,667
\$ 4,059,865	\$ 361,819	\$ 9,035	\$ 4,412,649	\$ 4,666,492

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT AS OF JUNE 30, 2011

CATEGORIES	*Revised Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession			
1. Noncredit	22	-	22
2. Credit	654	-	654
B. Summer Intersession			
1. Noncredit	-	-	-
2. Credit	169	-	169
C. Primary Terms			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	6,531	-	6,531
(b) Daily Census Contact Hours	962	-	962
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	128	-	128
(b) Credit	238	-	238
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	908	-	908
(b) Daily Census Contact Hours	394	-	394
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	<u>10,006</u>	<u>-</u>	<u>10,006</u>
E. Basic Skills courses and Immigrant Education (FTES)			
1. Noncredit	51	-	51
2. Credit	510	-	510
	<u>561</u>	<u>-</u>	<u>561</u>

* Annual report revised as of November 1, 2011.

See accompanying notes to supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Summarized below are the fund balance reconciliations between the Annual Financial and Budget Report (CCFS-311) and the fund financial statements.

	General Unrestricted Fund	Bond Interest and Redemption Fund	Student Financial Aid
June 30, 2011, Annual Financial and Budget Report (CCFS-311)			
Reported Fund Balance	\$ 11,708,228	\$ -	\$ -
Adjustments to Increase (Decrease) Fund Balance			
Prior year audit adjustments	5,323,421	-	-
Cash and accounts receivable	-	-	168,724
Investments	-	6,926,715	-
Accounts payable	-	-	(148,459)
Other	985,127	-	-
Net Adjustments	6,308,548	6,926,715	20,265
June 30, 2011, Audited Fund Balance	<u>\$ 18,016,776</u>	<u>\$ 6,926,715</u>	<u>\$ 20,265</u>

See accompanying notes to supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS JUNE 30, 2011

**Amounts Reported for Governmental Activities in the Statement
of Net Assets are Different Because:**

Total Fund Balance:

General Fund unrestricted	\$18,016,776
General Fund restricted	2,393,978
Special Revenue Funds	23,333,282
Capital Project Funds	51,727,896
Debt Service Funds	6,926,715
Enterprise Funds	1,408,453
Internal Service Funds	53,039
Fiduciary Funds	<u>254,598</u>
Total Fund Balance - All District Funds	\$ 104,114,737

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	151,105,296
Accumulated depreciation is	<u>(39,238,345)</u>
Amounts held in trust on behalf of others (Trust and Agency Funds)	111,866,951
	(234,333)
Recognizing the OPEB asset resulting from the difference between annual OPEB cost on the accrual basis and the OPEB contributions in the governmental funds.	5,674,303
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.	(2,313,792)
Long-term obligations at year end consist of:	
Bonds payable	142,476,116
Capital leases payable	6,787,368
Compensated absences	<u>1,595,624</u>
Total Net Assets	<u>\$ 68,248,758</u>

See accompanying notes to supplementary information.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

This schedule provides information about the District's governing board members and administration members.

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided Federal awards to subrecipients as follows:

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Amount Provided to Subrecipients
U.S. DEPARTMENT OF EDUCATION HIGHER EDUCATION ACT		
Title V - Hispanic Serving Institutions Cooperative	84.031S	\$ 401,026

Schedule of Expenditures of State Awards

The accompanying Schedule of Expenditures of State Awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The information in this schedule is presented to comply with reporting requirements of the California State Chancellor's Office.

Schedule of Workload Measures for State General Apportionment

Full-Time Equivalent Students (FTES) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds, including restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.

Reconciliation of Annual Financial and Budget Report (CCFS-311) With Fund Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the District's internal fund financial statements.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

Reconciliation of Governmental Funds to the Statement of Net Assets

This schedule provides a reconciliation of the adjustments necessary to bring the District's internal fund financial statements, prepared on a modified accrual basis, to the entity-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

NOTE 2 - RECONCILIATION OF EXPENDITURES OF GRANT ACTIVITY WITH THE DISTRICT'S SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following is a list of the grants and the unreconciled differences between the District's accounting records and the Schedule of Expenditures of Federal Awards.

Description	CFDA Number	Amount
Total Federal Revenues per Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 34,590,869
Supplemental Education Opportunity Program	84.007	(50,724)
Supplemental Educational Opportunity Grant-Administration	84.007	(8,162)
Federal Work Study	84.033	(3,450)
Federal Work Study - Administration	84.033	(5,982)
Pell Grant	84.063	2,082
Pell Grants - Administrative Allowance	84.063	(841)
TRIO Cluster	84.042	23,076
Direct Loans	84.268	72,120
Academic Competitiveness Grant	84.375	(5,389)
Early Start Comprehensive System	84.181	706
Child Development Careers Works! (CDC-WORKs!)	93.558	723
Temporary Assistance for Needy Families (TANF)	93.558	(640)
Veterans Educational Assistance	64.028	(338)
Total Expenditures of Federal Awards		<u>\$ 34,614,050</u>

INDEPENDENT AUDITORS' REPORTS



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Victor Valley Community College District
Victorville, California

We have audited the basic financial statements of Victor Valley Community College District (the District) for the year ended June 30, 2011, and have issued our report thereon dated December 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Victor Valley Community College District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Victor Valley Community College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Victor Valley Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Victor Valley Community College District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items 2011-1 and 2011-2. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Victor Valley Community College District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Victor Valley Community College District in a separate letter dated December 23, 2011.

Victor Valley Community College District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Victor Valley Community College District's responses and, accordingly, express no opinion on the responses.

This report is intended solely for the information and use of the Board of Trustees, District Management, the California Community Colleges Chancellor's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jaurek, Tine, Day & Co., LLP.
Rancho Cucamonga, California
December 23, 2011



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
Victor Valley Community College District
Victorville, California

Compliance

We have audited Victor Valley Community College District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Victor Valley Community College District's major Federal programs for the year ended June 30, 2011. Victor Valley Community College District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Victor Valley Community College District's management. Our responsibility is to express an opinion on Victor Valley Community College District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Victor Valley Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Victor Valley Community College District's compliance with those requirements.

As described in items 2011-7 and 2011-8 in the accompanying schedule of findings and questioned costs, Victor Valley Community College District did not comply with requirements regarding allowable costs and cash management that are applicable to Title V - Hispanic Serving Institutions Cooperative and the Student Financial Aid Cluster, respectively. Compliance with such requirements is necessary, in our opinion, for Victor Valley Community College District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Victor Valley Community College District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Victor Valley Community College District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Victor Valley Community College District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Victor Valley Community College District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-3 through 2011-10 to be significant deficiencies.

Victor Valley Community College District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Victor Valley Community College District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Trustees, District Management, the California Community Colleges Chancellor's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Valenick, Tim, Day & Co., LLP.
Rancho Cucamonga, California
December 23, 2011



REPORT ON STATE COMPLIANCE

Board of Trustees
Victor Valley Community College District
Victorville, California

We have audited the basic financial statements of Victor Valley Community College District (the District), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 23, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Victor Valley Community College District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Victor Valley Community College District's compliance with the State laws and regulations applicable to the following items:

Section 421	Salaries of Classroom Instructors: 50 Percent Law
Section 423	Apportionment for Instructional Service Agreements/Contracts
Section 424	State General Apportionment Required Data Elements
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Concurrent Enrollment of K-12 Students in Community College Credit Courses
Section 431	Gann Limit Calculation
Section 432	Enrollment Fee
Section 433	CalWORKS - Use of State and Federal TANF Funding
Section 435	Open Enrollment
Section 437	Student Fee - Instructional Materials and Health Fees
Section 473	Economic and Workforce Development (EWD)
Section 474	Extended Opportunity Programs and Services (EOPS)
Section 475	Disabled Student Programs and Services (DSPS)
Section 477	Cooperative Agencies Resources for Education (CARE)
Section 478	Preference for Veterans and Qualified Spouses for Federally Funded Qualified Training Programs
Section 479	To Be Arranged (TBA) Hours

Based on our audit, we found that for the items tested, the Victor Valley Community College District complied with the State laws and regulations referred to above, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs as items 2011-11 through 2011-16. Our audit does not provide a legal determination on Victor Valley Community College District's compliance with the State laws and regulations referred to above.

Victor Valley Community College District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Victor Valley Community College District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information of the Board of Trustees, District Management, the California Community Colleges Chancellor's Office, the California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Vallance, Trine, Day & Co., LLP.

Rancho Cucamonga, California

December 23, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2011

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>
Type of auditors' report issued on compliance for major programs:	<u>Qualified*</u>
Unqualified for all major programs except for the following programs which were qualified:	
<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.063,	
84.268, and 84.375	Student Financial Assistance Cluster
84.031S	Title V - Hispanic Serving Institutions Cooperative

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>Yes</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.063,	
84.268, and 84.375	Student Financial Assistance Cluster
84.048	Perkins IV, Title, Part C
84.334A	Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR-UP)
84.031S	Title V - Hispanic Serving Institutions Cooperative
17.258	ARRA - WIA Adult Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>

* As a result of findings 2011-7 and 2011-8 for Title V - Hispanic Serving Institutions Cooperative and Student Financial Assistance Cluster, respectively.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2011

The following findings represent significant deficiencies, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

2011-1 Schedule of Expenditures of Federal Awards (SEFA) / Schedule Of Expenditures of State Awards (SESA)

Criteria or Specific Requirement

OMB Circular A-133 requires the auditee to prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements. At a minimum, the schedule should:

- List individual Federal programs by awarding agency.
- Include, for Federal awards received as a sub-recipient, the name of the pass-through entity and the identifying number assigned by the pass-through entity.
- Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

Condition

Significant deficiency - A complete SEFA/SESA was prepared by the District for both the Federal and State categorical programs; however, we noted several errors and omissions in the initial reporting, including omission of CFDA numbers, pass-through entities and pass-through identifying numbers. State programs and local contracts were reported on the SEFA as Federal Categorical Programs. There were also some errors noted within the recording of the total revenues. None of the errors noted resulted in any audit adjustments.

Effect

Without proper controls over the reporting of Federal and State awards, the District is at risk of improperly reporting and accounting for the Federal awards. This could result in noncompliance with Federal award compliance and could result in loss of future funding for those programs.

Recommendation

The District fiscal services personnel must review its procedures over the collection of data to be included in the SEFA/SESA, and also review its existing format of the SEFA/SESA to ensure all required elements are properly reported and revenue is properly accounted for and deferred. A procedure should be established between departments receiving Federal and State revenue to communicate the source of the funding and accounting for the related expenditures which will be reported on the District's final SEFA/SESA.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2011

District Response

The Victor Valley Community College District agrees with the finding and has taken steps to assign personnel to review procedures and the existing format of the SEFA/SESA and collect data to ensure proper reporting. Procedures will be developed to ensure the Fiscal Services department is receiving all pertinent information regarding the funding.

2011-2 Form CCFS-311

Criteria or Specific Requirement

Balances reflected on the District's Annual Financial and Budget Report (Form CCFS-311) as reported to the California Community Colleges Chancellor's Office must be supported by underlying District accounting records and must include all funds of the District.

Condition

Significant deficiency - We noted that two funds, the Bond, Interest, and Redemption Fund and the Student Financial Aid Fund, were excluded from Form CCFS-311.

Effect

The District has incorrectly reported financial data to the California Community Colleges Chancellor's Office.

Recommendation

In accordance with the instructions of the California Community Colleges Chancellor's Office for the Annual Financial and Budget Report requirements, the annual activity of all funds of the District are to be reported on Form CCFS-311.

District Response

The Victor Valley Community College District agrees with the finding. Procedures will be developed in accordance with the Chancellor's Office requirements to include the annual activity of all funds.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

The following findings represent significant deficiencies, and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

2011-3 Special Tests and Provisions - Return to Title IV

Program: U.S. Department of Education (ED), Student Financial Assistance Cluster (CFDA #'s 84.007, 84.033, 84.063, 84.268, and 84.375)

Federal Programs Affected

CFDA #'s 84.007; 84.033; 84.063, 84.268; and 84.375

Criteria or Specific Requirement

A-133 Compliance Supplement, 34 CFR Section 668.22(j):

Returns of Title IV funds are required to be deposited or transferred into the Student Financial Assistance (SFA) account or electronic fund transfers initiated to ED as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the cancelled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew.

A-133 Compliance Supplement, 34 CFR Section 668.22(a)(5)(iii)(A):

Within 30 days of the date of the institution's determination that the student withdrew, the institution is required to provide a written notification to the student, or parent in the case of parent PLUS loan.

Condition

Significant deficiency - During our review of the requirements for Return of Title IV funds, it was observed that the District is returning their portion of the funds owed more than 45 days after the determination has been made. The District is also sending students a written notification past the 30 day requirement.

Questioned Costs

None. The District has returned all of the funds; however, those funds were not done within the 45-day requirement.

Context

The auditors tested 30 students and noted nine students were out of compliance with the 45-day requirement and four students were out of compliance with the 30-day written notification requirement.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Effect

The District is not in compliance with the Federal requirements described in OMB Circular A-133 Compliance Supplement 34 CFR Section 668.22(j) and 668.22(a)(5)(iii)(A).

Cause

The District has not implemented policies and procedures to monitor the Return of Title IV funds.

Recommendation

It is recommended that the District implement procedures to ensure that the Return of Title IV funds occurs within 45 days from the date the District determines the student withdrew from all classes. In addition, the District needs to ensure that students are notified in writing of an overpayment within 30 days after the District has determined that the student has withdrawn.

District Response

The Victor Valley Community College District agrees with the finding and has remedied this process by creating a Policy and Procedures manual. This process has now been implemented for 2011-2012 and adhered to by the financial aid staff to prevent this event from occurring in the future.

2011-4 Special Tests and Provisions – Direct Loan Reconciliations

Program: U.S. Department of Education (ED), Student Financial Assistance Cluster (CFDA #'s 84.007, 84.033, 84.063, 84.268, and 84.375)

Federal Programs Affected

CFDA # 84.268

Criteria or Specific Requirement

Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement (COD) within 30 days of disbursement (OMB No. 1845-0021). Each month, the COD provides institutions with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The school is required to reconcile these files to the institution's financial records. Since up to three Direct Loan program years may be open at any given time, schools may receive three SAS data files each month (34 CFR Sections 685.102(b), 685.301, and 303). (Note: The Direct Loan School Guide and yearly training documents describe the reconciliation process.)

Condition

Significant deficiency - The District is not reconciling the SAS data file to the institution's financial records on a monthly basis.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Questioned Costs

None.

Context

The District disbursed Direct Loan funds in the amount of \$8,999,582 during the 2010-2011 fiscal year.

Effect

Without proper monitoring of Direct Loan disbursements, the District risks non-compliance with 34 CFR Sections 685.102(b), 685.301, and 303.

Cause

The District has not implemented policies and procedures to verify that the SAS data file per the COD is reconciled to the institution's financial records.

Recommendation

It is recommended that the District implement procedures to ensure that the SAS data file and the Loan Detail records per the COD are reconciled to the institution's financial records.

District Response

The Victor Valley Community College District agrees with this finding and will develop desk-top procedures to tie COD to the District's loan financial records.

2011-5 Suspension and Debarment

Federal Programs Affected

U.S. Department of Education (ED) - Perkins IV, Title I, Part C (CFDA # 84.048),
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)
(CFDA # 84.334A),
Title V -Hispanic Serving Institutions (CFDA # 84.031S), and
U.S. Department of Labor - ARRA-WIA Adult Program (CFDA # 17.258)

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Criteria or Specific Requirement

Title 34 - Education, Part 80 - Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments - Subpart C - Pre-Award Requirements, Section 80.35 Sub-awards to debarred and suspended parties:

Grantees and sub-grantees must not make any award or permit any award (sub-grant or contract) at any tier to any party, which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension."

OMB Circular A-110, Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Sub-Part C, Pre-Award Requirements, Section .33 Debarment and Suspension:

Federal awarding agencies and recipients shall comply with the non-procurement debarment and suspension common rule implementing E.O.s 12549 and 12689, "Debarment and Suspension." This common rule restricts sub-awards and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

Condition

Significant deficiency - The District does not have procedures to ensure that the District is not expending monies to independent parties that have been determined to be suspended or debarred by the Federal government. The District does not have within their contracts, nor are they checking the Excluded Parties List System (EPLS) for all vendors over \$25,000 as required by the Office of Management and Budget.

Questioned Costs

None. See Context.

Context

The District did not expend any funds to excluded parties, but controls are not in place to ensure that future Federal funds are not expended to an entity included in the EPLS.

Effect

Future expenditures to excluded parties can result in the District having to return Federal funds.

Cause

The District has not implemented policies and procedures to ensure compliance with Federal requirements.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Recommendation

It is recommended that the District modify its procedures to ensure all vendors providing services to Federally funded programs in excess of \$25,000 have been verified that the entity is not suspended, debarred, or otherwise excluded. This verification may be accomplished by checking the EPLS website maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. The District should also update contract templates for all contract types that exceed \$25,000 to avoid any noncompliance and possible return of Federal monies.

District Response

The Victor Valley Community College District agrees with the finding and has taken measures to remedy this issue by adding verbiage to the current purchasing procedure for verification that a vendor is not suspended, debarred, or excluded from providing services to Federally funded programs.

2011-6 Reporting

Federal Programs Affected

U.S. Department of Education (ED) - Perkins IV, Title I, Part C (CFDA # 84.048)
U.S. Department of Labor - ARRA-WIA Adult Program (CFDA # 17.258)

Criteria or Specific Requirement

The District is required to report to the oversight agency, on a quarterly basis, the activity for Perkins IV, Title I, Part C. In addition, the District is required to report to the oversight agency, on a monthly and quarterly basis, the activity for ARRA-WIA Adult Program.

Condition

Significant deficiency - Quarterly reports submitted for Perkins IV, Title I, Part C, were not supported by the financial records of the District. Additionally, reports were not submitted to the oversight agency by the specified due date. The monthly and quarterly reports submitted for ARRA-WIA Adult Program were not supported by the financial records and other documentation of the District.

Questioned Costs

None. See Context.

Context

All four quarterly reports tested for Perkins IV, Title I, Part C could not be verified against the financial records of the District. Two monthly reports and two quarterly reports were tested for the ARRA-WIA Adult Program.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Effect

Allocations of Federal funds through the oversight agency may be impacted when reports are incomplete, inaccurate, or untimely.

Cause

The District did not have readily available financial information and other data reported to the oversight agency. Financial data reported included encumbrances which were not evident on the financial information provided. It appears there is not adequate oversight of the reporting timelines.

Recommendation

A reporting calendar should be used to document timelines for reporting. Supervisory personnel should monitor the reporting timelines. Each report should be reviewed to verify that it is supported by actual costs recorded in the financial system. Data reported for performance reports should be captured each month and retained in accordance with District record keeping policies.

District Response

The Victor Valley Community College District agrees with the finding. The District has taken steps to establish procedures to develop a Master Calendar on the Administrative Services website to communicate reporting deadlines to Budget Account Managers. Personnel have been assigned for the grant accounting function on restricted programs to ensure deadlines are met, guidelines are followed, and documentation is forwarded from responsible account managers.

2011-7 Allowable Costs - Time Accounting

Federal Program Affected

U.S. Department of Education (ED) - Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) (CFDA # 84.334A), Title V - Hispanic Serving Institutions (CFDA # 84.031S), and U.S. Department of Labor - ARRA-WIA Adult Program (CFDA # 17.258)

Criteria or Specific Requirement

Office and Management and Budget (OMB) Circular A-21, relocated to 2 CFR, Part 220, Section J.10.b.(1)(d):

- The apportionment of salaries and wages must be based on payrolls documented in accordance with the generally accepted practices of colleges and universities. Acceptable methods are described in Section J.10.c.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Condition

Significant deficiency - Wages of employees charged to GEAR UP and Title V were incorrectly recorded based on the time accounting reports maintained by the program directors. ARRA-WIA Adult Program salaries were not supported by required semi-annual certifications.

Questioned Costs

For Title V - Hispanic Serving Institutions, total questioned costs are \$15,973.62 for the salaries and associated benefits overcharged to the grant. For GEAR UP and ARRA-WIA Adult Program, there are no questioned costs. We examined sufficient documentation to conclude that the charges are reasonable.

Context

We selected a significant sample of the employees and examined documentation supporting wages charged, as well as reviewed the position and job descriptions of the employees included in the sample. Our conclusion was that the charges are reasonable and necessary charges to the program; however, we found that there were no policies and procedures in place specific to the OMB A-21 requirements for the ARRA-WIA Adult Program.

Effect

The certifications are required by the Office of Management and Budget cost circulars. The certifications support the reasonableness of wages charged to the applicable grants. Without the proper policies and procedures that address the Federal regulations, charges could be found to be unreasonable or not allowable.

Cause

Different departments oversee Title V, GEAR UP, and the ARRA-WIA Adult Program. The department that oversees the ARRA-WIA Adult Program was not aware of the OMB requirement. The GEAR UP and Title V grant director was aware of the requirement; however, charges were not appropriately allocated by the Business Office.

Recommendation

Management should develop a written policy related to Office of Management and Budget Circular A-21 so that it can be effectively communicated to all departments working with restricted resources. This will assist all managers to understand responsibilities related to compliance with OMB requirements. It will also provide a more consistent application across all departments of the District. This will reduce the risk that unallowable costs could occur.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

District Response

The Victor Valley Community College District agrees with this finding. The issue has been resolved and measures will be taken to ensure the problem does not occur in the future. Personnel have been assigned for the grant accounting function on restricted programs to ensure deadlines are met, guidelines are followed, and documentation is forwarded from responsible account managers.

2011-8 Cash Management - Federal Draw Downs

Program: U.S. Department of Education (ED), Student Financial Assistance Cluster (CFDA #'s 84.007, 84.033, 84.063, 84.268, and 84.375)

Federal Program Affected

84.007, 84.033

Criteria or Specific Requirement

Under the advanced method, the District request must not exceed the amount immediately needed to disburse funds to students or parents.

Condition

Significant deficiency - The District did not follow their policy regarding the amount of funds to be requested and therefore drew down excess funds.

Questioned Costs

\$9,432 for Federal Work Study and \$14,205 for FSEOG.

Context

During the 2010-2011 fiscal year, the District drew down approximately \$31 million.

Effect

The District can be placed on the reimbursement method where the funds will have to be approved by the awarding agency prior to being able to draw down any funds.

Cause

The District did not follow its policy of only drawing down funds required for immediate disbursement of funds to students or parents.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Recommendation

The District should revisit its policy regarding the draw down request for Federal funds. A control should be implemented to ensure proper segregation of duties over drawing down funds and verification that the amount is reviewed and approved.

District Response

The Victor Valley Community College District agrees with the finding and will develop procedures for draw down of funds and include proper controls for segregation of duties, review, and approval of the amount to be drawn.

2011-9 Subrecipient Monitoring

Federal Program Affected

U.S. Department of Education (ED) - Title V - Hispanic Serving Institutions Cooperative (CFDA # 84.031S)

Criteria or Specific Requirement

OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", Part 3, Compliance Requirements, Subrecipient Monitoring, and per 31 USD 7502(f)(2), a pass-through entity's responsibilities include, but are not limited to:

- Award Identification - At the time of the award, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.
- During-the-Award Monitoring - Monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Subrecipient Audits - (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133; (2) issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings; and (4) require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Condition

Significant deficiency - Grant agreements between the District and subrecipients did not contain certain required elements. The CFDA number, award name and number, and Federal awarding agency were not noted on either of the letters reviewed. The letters also did not indicate to the subrecipients that a Federal audit is required if they meet specific requirements and to allow the independent auditor of the pass-through entity to have access to the subrecipient's records and financial statements. Discussion with management of the program revealed there were no procedures in place to ensure that subrecipients received a Federal audit if they expended more than \$500,000 in Federal awards. No monitoring of the subrecipients was evident.

Questioned Costs

None.

Context

The letters we examined did not include the elements required by the Office of Management and Budget noted above.

Effect

Without proper documentation, the District is at risk of noncompliance with 24 CFR 84 §84.51.

Cause

The specific elements were not addressed in the letters because the District was not aware of the specific necessary elements nor was the District aware that a contract is required.

Recommendation

The District must ensure that their contracts contain all required elements and modify its procedures to identify all pertinent award information, such as CFDA title and numbers, award title and number, and Federal awarding agency, in the contracts with subrecipients. Contracts should also be modified to include requirements to allow the District's independent auditors access to any records or financial statement information as required to determine the District's compliance with Federal requirements. Management of the program should develop policies and procedures to verify the subrecipients are receiving Federal audits as required and that management is aware of any findings noted by the subrecipient's independent auditors.

District Response

The Victor Valley Community College District agrees to the finding and will develop policies/procedures to ensure that grant agreements with required elements between the District and subrecipients will be in place for future Federal grants awarded to the District.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

2011-10 Equipment Purchasing and Safekeeping

Federal Program Affected

U.S. Department of Education (ED) - Career and Technical Education Act (CTEA): Perkins IV, Title I, Part C (CFDA # 84.048)

Criteria or Specific Requirement

OMB Circular A-110, Subpart C, Section 34 (3) and (4):

(3) A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

(4) A control system shall be in effect to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the Federal awarding agency.

Condition

Significant deficiency - The District has not maintained an inventory control system that satisfies the compliance criteria noted above. Equipment purchased with CTEA funds have not been properly tagged as required.

Questioned Costs

None.

Context

During the current fiscal year, the District spent approximately \$210,000 on capital equipment.

Effect

Equipment purchased through the CTEA program may not be properly safeguarded and maintained for use within the program.

Cause

The District did not ensure that purchases of equipment with program funds were properly tagged as being purchased with Federal funding. Program management is not monitoring equipment purchased with Federal funds and an inventory has not been conducted within the last two years.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Recommendation

A process to ensure that equipment purchased is tagged upon receipt should be implemented.

District Response

The Victor Valley Community College District agrees with the finding. A process will be developed to ensure equipment is tagged upon receipt. The District will develop procedures to conduct annual inventory of assets in accordance with Federal and State regulations.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations.

2011-11 CARE - Advisory Committee

Criteria or Specific Requirement

CARE Program Guidelines require that each CARE program shall have an advisory committee that meets at least twice during each academic year.

Condition

The advisory committee for the CARE program only held one meeting during the 2010-2011 academic year.

Questioned Costs

There are no questioned costs associated with this finding.

Recommendation

CARE program officials need to ensure that the committee meets at least twice during the academic year.

District Response

The Victor Valley Community College District agrees with this finding. The District has established procedures to ensure regularly scheduled meetings. The next Advisory Committee meeting is scheduled for Tuesday, April 17, 2012.

2011-12 Student Fees - Instructional Materials

Criteria or Specific Requirement

- *Education Code Sections 70902, 76355, and 76365*
- The District can only charge instructional material fees for materials which are of a continuing value to the students outside of the classroom setting, is tangible personal property that is owned or primarily controlled by the student, and the material must not be solely or exclusively available from the District.
- The material must not be solely or exclusively available from the District. A material will not be considered to be solely or exclusively available from the District if it is provided to the student at the District's actual cost, and there are health and safety reasons for the District being the provider, or if the District is providing the material cheaper than it is available elsewhere.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Condition

Significant deficiency - The District could not provide supporting documentation to justify the instructional materials fee charged to the students. The District could not provide support that the fees being charged were for the actual costs to the District or the material was cheaper than it is available elsewhere.

Questioned Costs

Due to the nature of this compliance requirement, no questioned costs could be related to the condition.

Recommendation

The auditors recommend that additional procedures be implemented to monitor and ensure there is proper documentation to justify the material fees charged to the students.

District Response

The Victor Valley Community College District agrees with the finding and will implement procedures to monitor and provide documentation to justify material fees charged to the students.

2011-13 Residency Determination

Criteria or Specific Requirement

- California Community College District's *Student Attendance Accounting Manual (SAAM)*: Residency determination shall be made for each student at the time applications for admission is accepted, and whenever a student has not been in attendance for more than one semester or quarter.
- *Education Code Section 68041*: Each student enrolled or applying for admission to an institution shall provide the information and evidence of residence as deemed necessary by the governing board or District governing board, as appropriate, to determine his or her classification. The determination of a student's classification shall be made in accordance with this part and the residence determination date for the semester, quarter, or term for which the student proposes to attend an institution.

Condition

Significant deficiency - From a sample of 25 students selected for residency determination, one (1) student was classified as a resident and registered for 12 units. The student is in fact a non-resident and should not have been included in the accumulation of credit FTES. The student was charged the proper tuition rate for a non-resident.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Questioned Costs

There are no questioned costs associated with this finding. The District corrected the reporting error on the Apportionment Attendance Report (CCFS-320) for the ReCalc Period.

Recommendation

Written procedures should be prepared and provided to all Admissions and Records staff noting the requirements for the classification of students for enrollment purposes. The verification of the residency status should be consistently applied and documented to ensure that only the FTES generated by California residents are included in the CCFS-320 Attendance Reports.

District Response

The Victor Valley Community College District agrees with this finding and will ensure procedures are available to staff. The District follows the Chancellor's Office procedures for verification of residency.

2011-14 Students Actively Enrolled

Criteria or Specific Requirement

- California Code of Regulations, Title 5, Section 58030:
The governing board of each District shall adopt procedures that will document all course enrollment, attendance and disenrollment information required by the provisions of this subchapter. Authorized procedures shall include rules for retention of support documentation which will enable an independent determination regarding the accuracy of tabulations submitted by the District to the Chancellor's Office as the basis of its claim for State support. Such support documentation procedures shall provide for accurate and timely attendance and contact hour data and shall be so structured as to provide for internal controls.
- California Code of Regulations, Title 5, Sections 58003.1, 58004, 58005, and 58051
- California Community College *District's Contracted District Audit Manual*: Section 426.
Each District may only claim for apportionment purposes the attendance of students actively enrolled as of census day. An internal review system must be in place to ensure that census day parameters are properly set up to ensure attendance is properly calculated and reported.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Condition

Significant deficiency - The District is claiming apportionment for all drops occurring on census day. In order to count that apportionment within the FTES calculation, established procedures must be in place to identify and remove inactive students as of census day from the rosters. The District has a procedure in place; however, there are no procedures to identify the instructors that have not appropriately turned in their attendance rosters on census day. Without this information, all students enrolled in the class that have not dropped the course are included in the FTES calculation whether or not they are actually attending the course. From a sample of 25 students selected for students actively enrolled, three (3) students dropped prior to census day; however, they were claimed for apportionment. Furthermore, of 25 classes tested, the District could not provide census rosters for 12 classes.

Questioned Costs

There are no questioned costs associated with this finding. The District corrected the reporting error on the Apportionment Attendance Report (CCFS-320) for the ReCalc Period.

Recommendation

Procedures should be established, or a program within the attendance software be written, that will allow for the Admissions and Records Office to identify the rosters that have been turned in by the instructors to determine the complete accuracy of reporting.

District Response

The Victor Valley Community College District agrees with the finding and has taken steps to remedy the issue. Effective Spring 2012, the "Drop grade required" date has been adjusted in Datatel to be prior to the Census date. This will mean that students who drop after the "Drop grade required" date will receive a "W" and are allowed to be counted for apportionment.

2011-15 State General Apportionment Funding System

Criteria or Specific Requirement

- California Code of Regulations, Title 5, Section 58003.1:
Pursuant to the provisions of Section 58051, the units of a full-time equivalent student (FTES) for apportionment purposes shall be computed for courses, including those delivered by distance education under Article 1 (commencing with Section 55200) of subchapter 3 of chapter 6, based on the type of course, the way the course is scheduled, and the length of the course.

Condition

Significant deficiency - Of the 25 course sections reviewed, the contact hours reported for four courses were over-reported. For those courses, there was a total of 2,547 weekly contact hours over-reported.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Questioned FTES

For the courses noted, 4.85 of FTES was over-reported.

Recommendation

We recommend the District review and develop system controls to ensure contact hours are accurately reported.

District Response

The Victor Valley Community College District agrees with the finding and the issue has been remedied. Procedures have been put into place to ensure the error will not occur starting Spring 2012, and beyond.

2011-16 To Be Arranged (TBA) Hours

Criteria or Specific Requirement

- Second To Be Arranged (TBA) Hours Follow-Up Memorandum, June 10, 2009
- TBA Hours Follow-Up Memorandum, January 26, 2009
- TBA Hours Compliance Advice (Legal Advisory 08-02), October 1, 2008
- *Education Code* sections 84040 and 88240
- CCR, Title V, Sections referred to are 55002, 55002.5, 53415, 58000, 58003.1, 58006, 58020, 58030, 58050, 58051, 58056, 58102, 5804, 58108, 58168, 58170, 58172, 59020, and 59112
- Student Attendance Accounting Manual
<http://www.cccco.edu/ChancellorsOffice/Divisions/FinanceFacilities/FiscalServices/AllocationsSection/StudentAttendanceAccountingManual/tabcid/833/Default.aspx>
- Districts are required to list TBA Hours in the schedule of classes and describe them in the course outline.
- Districts need to track TBA Hour student participation carefully and make sure that they do not claim apportionment for TBA Hours for students who have documented zero hours as of census point for a particular course.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Condition

Significant deficiency - Discrepancies were noted of TBA hours in the schedule of classes, published course catalog, and course outline.

- For seven (7) of the 11 TBA classes sampled, a clear description of the course, including the TBA requirements, was not disclosed in the course catalog and class schedule or addendums.
- For three (3) of the 11 TBA classes sampled, the class outline does not clearly describe the specific instruction activity including TBA activity expected of each student.
- For all 11 of the TBA classes sampled, the course syllabus and/or other documentation provided to the student was not provided for auditor review in order to verify that the student was aware and agreed to expectations and specific instructional activities.
- TBA Hours are required to take attendance on each class session in order to claim apportionment. In each class section coded as TBA class, the District could not provide supporting documentation (attendance rosters) to justify the TBA Hours associated with several courses tested.

Questioned FTES

FTES reported on the Apportionment Attendance Report for TBA Hours is 377.02.

Recommendation

It is recommended that proper procedures be implemented to closely monitor courses with TBA Hours to ensure that the schedule of classes list the TBA Hours and that the course outline describes them. Procedures should also be implemented to verify that the District tracks and codes TBA Hour student participation carefully and make sure that they do not claim apportionment for TBA Hours for students who have documented zero hours as of census point for a particular course or for classes in which the teachers neglect to keep the attendance rosters. It is also recommended that the course outlines and student participation records be kept for the required retention period and be available for review if required.

District Response

The Victor Valley Community College District agrees with the finding and processes have been put in place starting Spring 2012, to make the necessary adjustments.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of audit findings and questioned costs.

Financial Statement Findings

2010-1 FORM CCFS-311

Criteria or Specific Requirement

Balances reflected on the District's Annual Financial and Budget Report (Form CCFS-311) as reported to the Chancellor's Office must be supported by underlying District accounting records.

Condition

We noted instances where balance sheet accounts reported on the CCFS-311 report did not tie to the District's general ledger.

Questioned Costs

None. As we were able to verify correct amounts.

Effect

The District is not able to support all financial information reported to the State with underlying detailed accounting records.

Cause

The District may be incorrectly reporting amounts to the Chancellor's Office.

Recommendation

Procedures should be established to reconcile fund State reports to underlying supporting District financial records.

Current Status

Partially Implemented. See current year finding 2011-2.

VICTOR VALLEY COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

Federal Awards Findings

2010-2 Financial Aid Student Account Reconciliation

Criteria or Specific Requirement

Student accounts in the financial aid department are required to be reconciled to the Department of Education's Common Origination and Disbursement (COD) system in a timely manner.

Condition

The District's Financial Aid Department is not perpetually reconciling student accounts with the COD system; they are instead waiting until year end to reconcile all student accounts.

Questioned Costs

None.

Effect

As a result of this practice, the burden of reconciling the accounts is causing delayed completion of the Financial Aid accounts trial balance. Due to this delay, the trial balance was not available to the District's auditors in a timely manner.

Cause

The District's Financial Aid Department is not interfacing with the District's Business Office on a regular basis to reconcile student accounts.

Recommendation

It is recommended that the District perform perpetual reconciliation of the student accounts with the COD system in order to reduce the work load at year end and allow the District to produce a trial balance in a timely manner.

Current Status

Implemented.